

DETERMINANTS OF FINANCIAL INCLUSION AMONG RURAL HOUSEHOLDS: THE ROLE OF FINANCIAL LITERACY, INCLUSIVE PRODUCT FEATURES, AND FINANCIAL ADVISORS

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ABSTRACT

The current research will be an investigation into the determinants of financial inclusion in rural household with a special focus on the financial literacy and awareness levels, inclusive product characteristics, and the place of financial advisors. The paper also measures the effects of these factors on the use of formal financial systems. The exploratory research design was employed, and 100 respondents were taken as the primary data using a structured questionnaire measured on a five-point Likert scale. The data was analyzed through descriptive statistics, reliability analysis and multiple regression analysis to determine the relationship between the independent variables and the financial inclusion. The results indicate that inclusive product features and financial advisors can strongly affect financial inclusion, but financial literacy and awareness is not statistically significant and affects financial inclusion in the regression model. The findings point to the fact that the product affordability, security, suitability and advisory support are more directly related to promoting inclusion than is knowledge. The research resolves that inclusive financial products design and increased advisory support mechanisms are essential in enhancing the results of financial inclusion. The policymakers and financial institutions need to pay attention to include measures of trust-building and customer-oriented product strategies to increase inclusion in rural settings.

Keywords: Financial Inclusion; Financial Literacy; Inclusive Product Features; Financial Advisors; Rural Households; Multiple Regression Analysis

1.INTRODUCTION

Financial inclusion is critical towards making sure the society enjoys equitable access to financial resources and opportunities. Poverty and lack of economic prospects have been persistent in rural areas, so households have no means of attaining sustainable and better lives. Financial inclusion facilitates economic inclusion, social mobility, and poverty alleviation by allowing people to have access to important financial services like savings, credit, insurance, and pension products. It has a direct impact on enhancing living standards, social integration, and enhancing more developmental outcomes. Having realized its significance, the World Bank emphasizes that financial inclusion has a great impact on the fulfillment of several Sustainable Development Goals (SDGs), which are the elimination of poverty, food security, health and well-being, quality education, gender equality, economic growth, and sustainable industrial development. This has led to the emergence of financial inclusion and poverty alleviation being major topics of research in development.

There is close interrelation between economic behaviour and financial inclusion. Whereas economic behaviour includes saving, spending, investments, and decisions of long term financial planning, financial inclusion is the assurance that individuals are able to access the formal financial systems so that they can make informed choices in the areas of their economics. Nonetheless, the access is not necessarily followed by desirable economic outcomes. The socio-economic conditions, mental accounting practices, socialization of households into financial behaviours, level of awareness, and

institutional trust contribute towards household financial behaviour. Research indicates that, financial inclusion enhances the capacity of households to deal with risks, react to climate uncertainties, resource management, and improvement of socio-economic status. In rural India, inclusive financial development is also sustained through enhanced access to banking services in the form of bank branches, automated teller machines, business correspondents, and mobile banking services. Institutional systems of financial access have also been reinforced through government programs such as the Pradhan Mantri Jan Dhan Yojana, the Aadhaar integration, the MUDRA scheme, and through the JAM trinity.

Although the financial infrastructure is getting better, the motivation of inclusive financial behaviour in rural India is not well studied. Previous literature has paid more attention to the supply-side aspects such as supply of services, whereas there is not much information on the demand-side considering such aspects like financial literacy, awareness, socio-demographic variables, and the role of financial advisers. In rural households, the use of intermediaries like financial advisers, banking correspondents is very common, and through these trusted intermediaries, rural households can enjoy the services of a formal service provider and make financial decisions. Their advice will be able to influence the savings behaviour, investment preferences, and the general economic decision-making procedures. However, their influence on the financial inclusion ecosystem also needs certain empirical study. Moreover, the poor rates of financial literacy, especially in rural communities, women and low-income groups still remain a serious problem. Inclusive savings behaviour and fortification of advisory mechanisms can facilitate the improvement of national savings and economic stability. Consequently, it is important to look at the relationship between financial inclusion, advisory influence and socio-economic factors to formulate effective policies that can lead to sustainable and inclusive growth in rural India.

2.REVIEW OF LITERATURE AND HYPOTHESIS DEVELOPMENT

To position the study within the existing body of knowledge and identify theoretical as well as empirical gaps, a comprehensive review of literature is undertaken. The review synthesizes prior research on financial literacy, inclusive product design, and the role of financial advisors in advancing financial inclusion. This structured analysis provides conceptual clarity and establishes the foundation for hypothesis development.

2.1 Financial Literacy, Awareness and Financial Inclusion

Atkinson and Messy (2013) underlined that due to financial inclusion, there is a great need to raise financial awareness, especially in economies with low income where the level of literacy and education is low. Their work was aimed at investigating the role of financial education programs in enhancing access to formal financial services. The results indicated that the more financial knowledge people have, the more they are confident in financial planning and engage in formal saving systems. The same was shown by Mahdzan and Tabiani (2013), who showed that financial education improves the capability of a person to choose the right financial tool in accordance with long-term objectives.

Empirical evidence also confirms that there is a strong relationship between financial literacy and saving behaviour. In their article on 325 rural households, Bogale et al. (2017) discovered that age, income, and education affect saving behaviour in a positive manner. In Finland, Kalmi and Ruuskanen (2018) found that there is a strong correlation between financial literacy and the use of pensions, especially among women. In the case of the Omani context, Uddin (2020) stands out that there was a significant and positive influence of financial literacy on individual savings. By applying a nationally representative sample of Peru, Clarinra et al. (2014) concluded that education significantly enhances the results of financial inclusion. The same results in both of the developed and emerging economies

support the idea that financial literacy has become one of the critical factors of household savings and inclusion (Murendo and Mutsonziwa, 2016; Lusardi, 2019; Morgan and Long, 2020).

Dogra et al. (2023) discovered that financial literacy plays a significant role in financial attitudes and behaviours in India, and those at the 2630 age brackets had greater financial awareness. Sulthana et al. (2022) found that male and post-graduate respondents who have a higher income have a better financial control and investment planning ability. Kumar and Laha (2012) also created a composite index of financial inclusion amongst Indian states and found that creation of awareness of basic financial services is the initial prerequisite of inclusive growth. Together, these researches define the financial literacy and awareness as the root causes of financial inclusions based on the studies.

2.2 Inclusive Product Features and Financial Inclusion

Mumin et al. (2016) defined a financial inclusion framework as a strategic system, which aims to deliver affordable but suitable financial services to underserved populations. They were trying to bring out the essence of customization of products in attaining sustainable inclusion. The results implied that regional specifications of financial products would be very helpful in increasing adoption levels. Sivakumar and Rajadurai (2021) also demonstrated that the prior service experience and perceived value influence customer buying intentions.

According to Gera and Fatta (2020) and Anamoako (2022), value for money, quality of the service, brand identity, and product knowledge were among the significant factors of financial decision-making. Claawala and Joshi (2021) observed that perceptions of safety and security are very powerful brands in investment decisions. In times of financial crisis, houses are likely to allocate their resources into less risky assets like insurance and gold and bank deposits and government-supported savings plans (Zhang and Wang, 2021). Gurbaxani and Gupte (2021) noted that older people are more financial prudent because of previous experience, and they are usually risk averse. These results affirm that the attributes of products include affordability, security, suitability, and guaranteed returns, are very important when it comes to inclusive financial behaviour.

2.3 Financial Advisors and Financial Inclusion

Stix (2013) and Goldberg (2014) noted that lack of trust towards financial institutions deters houses in developing countries that save in a formal capacity. The aim of their research studies was to test trust as a factor of financial inclusion. The results found out that past banking crises and transparency are factors that lead to cash hoarding behaviour. Beckmann and Mare (2017) and Ogunleye (2017) also added that the inclusion strength depends on the mechanisms of trust-building.

Financial advice is critical in minimising the information asymmetry and directing households towards formal savings behaviour. Gwolani and Parkhi (2014) maintained that even as the branches were expanded, Indian banks could not make any notable progress in terms of inclusion since they did not promote the products effectively. Psychological reassurance, product elucidation, and communication are capable of influencing saving habits by financial advisors (Liu et al., 2020). In their study, Breza and Chandrasekhar (2019) discovered that the mechanisms of social accountability imposed by financial intermediaries have a positive impact on savings discipline. The research by Soft and Hakim (2018) showed that successful advisory relationships enhance the retention of customers and investment confidence.

In general, the study indicates that financial advisors can not only increase trust but also reduce the association between financial literacy, product characteristics, and financial inclusion outcomes.

3.HYPOTHESES

H1: Financial literacy and awareness have a significant positive impact on financial inclusion of rural households.

H2: Inclusive product features positively influence financial inclusion by aligning with rural households' financial objectives.

H3: Financial advisors significantly contribute to the financial inclusion process in rural India.

H4: Financial advisors positively moderate the relationship between product features, financial literacy, and financial inclusion

4.RESEARCH METHODOLOGY

To achieve the research objectives, a conceptual model was developed to examine the influence of financial literacy and awareness, inclusive product features, and financial advisors on financial inclusion among rural households, along with assessing the role of financial advisors in shaping economic behaviour. Primary data were collected from rural households in Bangalore rural districts using a structured questionnaire consisting of items measured on a five-point Likert scale (1 = Strongly Disagree to 5 = Strongly Agree). A total of 100 valid responses were obtained through a structured survey process. The collected data were analyzed using multiple regression analysis to examine the direct relationships between independent variables (financial literacy and awareness, inclusive product features, and financial advisor) and the dependent variable (financial inclusion). The chosen method is appropriate for evaluating the influence of multiple predictors on a single outcome variable and for determining the strength and significance of these relationships within the proposed model.

5.Data Analysis and Interpretation

The descriptive statistics show that the mean value of all the constructs is between 2.97 and 3.06 on a five-point Likert scale indicating that respondents are moderately in agreement. The greatest mean was given to inclusive product features (3.06) suggesting that the respondents find the product features of affordability, suitability, and security as relatively important to financial inclusion. The similar moderate perceptions are exhibited by Financial Inclusion (2.98) and Financial Advisor (2.98), whereas similar level of understanding is observed in Financial Literacy and Awareness (2.97) among the respondents. The SDs with the range of 0.658 to 0.778 demonstrate that there is mediocre variability in responses, with Financial Advisor having a little higher one, which implies that people may disagree on the role of advisors. Generally, the findings suggest that the awareness and engagement of respondents on financial inclusion and its determinants have average scores.

Table 1: Descriptive Statistics

	Mean	Std. Deviation	N
Financial Inclusion	2.98	.724	100
Financial literacy and awareness	2.97	.658	100
Inclusive product Features	3.06	.694	100
Financial Advisor	2.98	.778	100

The statistics of multicollinearity show that there is no multicollinearity problem amongst the independent variables of the model. The tolerance of Financial Literacy and Awareness (0.997), Inclusive Product Features (0.997) and Financial Advisor (0.999) are much higher than the acceptable threshold of 0.10 thereby confirming that each predictor does not have much in common with the others. On the same note, the value of Variance Inflation Factor (VIF) is between 1.001 and 1.003,

which is much less than the critical cut-off value of 5 (or the conservative value of 3). These findings affirm that there is no high correlation between the predictors and that each variable plays a significant role in explaining Financial Inclusion without redundant and distorted regression estimates.

Table 2: Multicollinearity

	Collinearity Statistics	
	Tolerance	VIF
Financial literacy and awareness	.997	1.003
Inclusive product Features	.997	1.003
Financial Advisor	.999	1.001

Based on the review of the model, it is evident that the overall regression model is at medium strength of explanation. The R value of 0.436 is used to show that there is a positive relationship between the independent variables (Financial Literacy and Awareness, Inclusive Product Features, and Financial Advisor) and the dependent variable (Financial Inclusion). The R square value of 0.190 indicates that the percentage of variation in the Financial Inclusion that is attributed to the predictors in the model is 19%.

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.436 ^a	.190	.164	.662

The table on coefficient shows the respective contribution of each predictor to Financial Inclusion. The constant (B = 0.811, p = 0.099) is not significant at the 5% level and this means that the intercept is not significantly different when predictors are not in the equation. Financial Literacy and Awareness (B = 0.153, 0.139, p = 0.135) indicates that it has a positive but statistically non-significant impact on Financial Inclusion implying that the favorable direction of literacy does not mean it is a significant predictor of inclusion in this sample. Inclusive Product Features (B = 0.304, 0.291, p = 0.002) on the other hand has a positive statistically significant effect, which means that the product characteristics like affordability, suitability and security contribute very strongly to financial inclusion. In the same vein, Financial Advisor (B = 0.263, 0.283, p = 0.003) is of substantial importance to Financial Inclusion, and advisory support and trust play an important role in enhancing inclusion. Altogether, empirical findings indicate that inclusive product design and financial advisory services are relevant predictors, and financial literacy is perhaps not an adequate factor that can promote inclusion in the current realities.

Table 4: Coefficient Table

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.811	.488		1.664	.099
Financial		.101	.139	1.509	.135

literacy and awareness	.153				
Inclusive product Features	.304	.096	.291	3.166	.002
Financial Advisor	.263	.086	.283	3.076	.003

CONCLUSION

According to the results of the regression analysis, Inclusive Product Features and Financial Advisor have a strong role in encouraging Financial Inclusion amongst the respondents. The two variables showed positive and statistically significant effects, which indicate that product affordability, suitability, security, and advisory support are significant drivers of inclusion. The findings indicate that where financial products are tailored to the requirements of rural households and where formal financial systems are advised by those who are trusted, people will be more likely to join the formal financial systems. Conversely, Financial Literacy and Awareness had a positive relationship but was not significantly significant, which means that knowledge, without structures and advisory support, might not be the key to financial inclusion.

Overall, the model has sufficient explanatory power of a medium level of variance in Financial Inclusion, which could imply that the identified predictors are not the only ones but other socio-economic or institutional factors can also account for the inclusion outcomes. There is no multicollinearity, which proves the strength of the regression outcomes and the independent effect of each variable. The research concludes by establishing that improving inclusions in product design and better positioning of financial advisors are some of the effective strategies that can be applied to enhance the aspect of financial inclusions, particularly in emerging and rural settings. The next set of research might include a number of variables and more extensive samples to increase the explanatory power of the model.

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